

MICROFINANCE IN MENA REGION: A PARTIAL SUCCESS

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Abstract

Microfinance is considered as effective and powerful tool for poverty eradication and women empowerment in developing countries. It helps poor by facilitating the access to financial resources; and providing a better life condition by increasing the household revenues and job creation for entrepreneurial poor. Existing literature about microfinance sector in Eastern and Southern Asia, as well as Latin America is somewhat rich, while this sector in Middle East and North African region (MENA) is merely studied and demands more investigations. The objective of this paper is trying to review the literatures and current findings about this sector in the MENA region.

1. Introduction

The new movement of microfinance backs to foundation of Grameen Bank in Bangladesh by professor Muhammad Yunus in 1970. Since then microfinance is known as an effective and powerful tool in poverty eradication. This bank provides small loans for its poor clients with no collateral or any formal document assignment. The other well-known examples in this sector are Banco Sol in Bolivia and Bank Rakyat in Indonesia.

About 1.4 billion of people in developing countries live in extreme poverty – less than 1.25\$ a day in 2005- and with economic crisis this number is expected to be 50 to 90 million higher in the year 2009. Setting the year 2015 as a target date by Millennium declaration to halve the extreme poverty in every aspect of it (United Nations 2009), microfinance has been considered as a powerful tool in achieving this goal.

Microfinance especially in developing countries, where has its origin, is playing an important role in poverty reduction. Its target is the poor who have been neglected by formal financial sectors. It provides job opportunities and increases the life quality of them, raises the household revenues and in consequence provides more access to education, nutrition and health services. Microenterprise and job creation also increases GDP per capita and contributes to the national economic growth.

One of the main reasons that the poor can't develop economically is their lack of access to loans and formal banking systems because his access to acceptable collateral, assets and legal documents is deficient. On the other side, since the cost of control and monitoring of these loans is high for the commercial banks, they see it less profitable and so are less tended to make

lending to these groups (Hermes 2007). According to Brandsma (1998) there are some characteristics for a good microfinance program:

- There are small amounts of money and short term loans
- The term of reposition is short, weekly or monthly
- The borrower and investment appraisal is informal
- There are different easy methods as collateral substitution
- After timely repayment base on the performance it provides the access to larger amount of loans.
- The resources rendered are invested in economic activities chosen in advanced by the borrowers, although sometimes this rule is not strictly followed.

There are various lending approaches used by microfinance institutions. As the main methods, we can mention three of them. The first and the most famous method is “Group lending” which is also used by Grameen Bank and Banco Sol. It is based on joint liability group lending. This approach uses a group of borrowers whom are responsible for repayment of the loan (Hermes 2007). Another method of lending is “Village banking”. It is based on larger group but uses the same approach as joint liability. The third method is “Individual-based lending”, which is close to traditional banking and involves a mutual relationship between the financier and the customer (Cull 2007). Joint liability loan forces each group of borrowers to be responsible to repay the loan, so if one group could not repay it, the other group members have to impart to assure the repayment of the group. In case that group could not repay, their future access to the loan would be denied. This creates a contribution and repayment assurance by monitoring the repayments of each member by the other members of the group. The repayment performance in this method is high (Hermes 2007).

2. Microfinance and women empowerment

Another fundamental characteristic of microfinance is its special attention to women. Empowering the women always has been inquired and microfinance especially micro entrepreneurship is helpful in meeting this goal. Microfinance generates work and employment, increases the productivity and personal abilities, makes women involved in social activities, improves their decision making, self confidence and leads to economic independence and improvement of their living standards. According to conducted studies by UNDP and World Bank the rate of women unemployment is higher and generally they are poorer than men and they face more barriers in finding funds and in consequence it is more difficult for them to come out of poverty. Muhammad Yunus verified since the beginning of the Grameen Bank, the money that reaches the families through the women has more effect in family and its community rather than the same amount of money lent to men. The loans devoted to women have more repayment rate and it would be more profitable for the institutions.

In addition women manage the money they get from the bank more carefully. It can be noted of their capability in managing the few resources which they had before. It is also more probable that they lead the loan to their children (Roodman, 2008). They also have shown a better long term vision, trying to get out of poverty in a systematic way with very strict principles. After verifying this facet the Grameen Bank gives preference to the women.

Table 1 Microcredit summit campaign report 2009

Data Point	Finding
Number of MFIs Reporting (1997–2007):	3,552
Number of MFIs Reporting in 2008 Only:	861
Percent Poorest Clients Represented by MFIs Reporting in 2008:	83.4 %
Total Number of Clients (as of 12/31/07):	154,825,825
Total Number of Women (as of 12/31/07):	109,898,894
Total Number of Poorest Clients (as of 12/31/07):	106,584,679
Total Number of Poorest Women (as of 12/31/07):	88,726,893

According to Microcredit summit campaign, of the 106.6 million poor clients at the end of the year 2007, about 82 percent or 88.7 million are women (Daley-Harris, 2009).

Findings of UNDP and World Bank also shows that countries in which exists gender discrimination are less developed economically, exists more poverty and the quality of life is lower, but microfinance would not be the only solution to take women out of poverty. According to Cheston(2001), the personal abilities of women, social environment which makes them able to have more connections and access to networks and information are the other important factors.

3. Microfinance in Middle East and North Africa (MENA):

The Middle East and North Africa is a diverse region. Including an oil-rich economy, the poverty of this region is among the lowest in developing countries, about 5 percent at 1.25\$ a day and around 17 percent at 2\$ a day poverty line in 2005 (worldbank.org). In this case, it is the same as Latin America and Caribbean, lower than East Asia but higher than Europe and Central Asia (Figure 1). World Bank's Data shows that about 17% of Egyptians, 15% of Yemenis and 10% of Moroccans have the consumption rate lower than 5 cents per day. In this region poverty is expected to infect about 2.6 million people by the year 2011. However, empowering poor people and fighting poverty compromise an important strategy. Microfinance in this region is a young industry. While it has begun for decades in west Asia, the oldest program in this region started in Egypt 10 years ago.

But also there are several successful experiences in the region: (i) the *Sanadiq project at Jabal al-Hoss* in Syria; (ii) the *Mu'assasat Bayt Al-Mal* in Lebanon; and the (iii) *Hodeidah Microfinance Program* in Yemen (Islamic research and training institution, 2008).

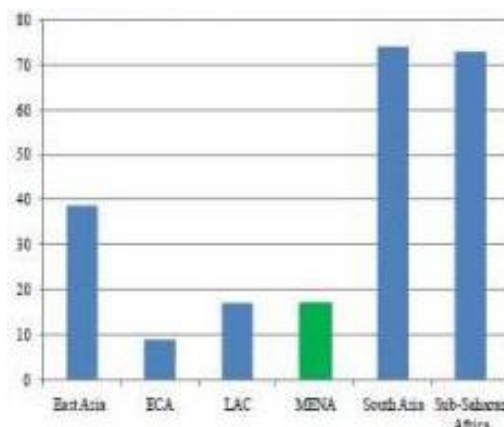


Figure 1 Latest data on poverty by region (2005), Source: World Bank Central Database POVOCALNET 2010

According to Brandsma (2000) there are some reasons that microfinance is not grown appropriately in the region and makes it different from other parts.

- There are too many expectations of Microfinance. It is not the only solution for unemployment reduction.
- Microfinance is hardly defined. Most of the services are credits and they don't include saving or deposits.
- Some Microfinance institutions have experienced crisis and going out of this needs time.
- Many Microfinance programs of the region are using the methodology of Islamic finance.
- The interest of governments to regulate the microfinance. This intention may put in danger the feasible growth of Microfinance in the region.
- Women situation is more disfavored in this region comparing with other parts of the world, because of some cultural and social barriers in providing the financial access for them.

Based on the survey of the World Bank, there are various similar programs in the region, but they are different with the traditional concept of the microfinance and their purpose is reducing unemployment by providing small amount of investment loans. These programs in some countries of the MENA have more active clients in comparison with microfinance programs and also receive more funds from the governments. But unfortunately because of the lack of appropriate information system of some of these programs, the data available is poor in quality (Brandsma, 2000).

3.1. Islamic Microfinance:

Islamic finance and microfinance have several points in common. Both of them support entrepreneurship, risk sharing, finance partnership and participation of the poor (Islamic research and training, 2008). Islamic microfinance is being used in the majority of the Muslim countries. One of the first Islamic microfinance programs was initiated in Bangladesh by Grameen Bank. However, in MENA region Islamic microfinance is in its infancy. Islamic finance is based on the Islamic law, Sharia, and its principle is on the forbiddance of Riba. Riba has two aspects. First is delay in liquidation of due debt and the other one is the fixed increase of the amount of debt over time. One reason for this forbiddance is to support and defend the borrower (Abdul Rahman,

2007). Thus, many Islamic finance activities have tried to release any form of fixed interest rate (Brandsma, 2000). Nevertheless, profit making is acceptable in Islam and financial institutions can raise fund through business participations and sharing the risk and profits of the investment. There are some instruments for this type of financing which are divided into 1. Profit and loss sharing mode such as, Mudarabah and Musharakah 2. Sales based mode such as Murabahah and 3. Lease based mode such as Ijarah (Islamic research and training institute, 2008).

3.1.1. Mudarabah

It is one of the models used by microfinance programs. Under this model the microfinance institution and the borrower become partners. The profit is based on the agreed percentage and will be shared between the program which provides the investing capital and the entrepreneur who shares his labor and work. The rate of profit sharing is pre-determined but the profit is not clear. At the beginning, the program is the 100 percent owner of the share but with any repayment of the loan installment by the entrepreneur he “buys back” the shares (Dhumale, 1999). Any loss is entirely born by the financier. Thus, in the case of loss, the investor loses the capital and the laborer loses his time and endeavor. From the microfinance point of the view, this model has some disadvantages. The most remarkable is the dubiety in accounting and distribution of the profits justly, because determination of the exact profit is difficult. This model is somehow complicated to understand for the borrower and the loan office (Dhumale, 1999). Another disadvantage is the high cost of administration and monitoring. Repayment is complex because of the lack of adequate accounting. The borrower every time has to repay a different amount and this confuses the borrower and the Microfinance institutions. The margin of error is considerable in this method (Brandsma, 2000, CGAP.org).

3.1.2. Musharakah

It is equity partnership in business venture. In this scheme two or more partners impart the capital and labor of a project. It is also been used as a microfinance program. In this model an Islamic microfinance institution enters the contribution with the micro entrepreneurs. The profits will be shared based on the pre-determined ratio and the losses will be shared according to the contribution of the capitals. In this method also there is a risk of deterioration of the capital so the main capital may not be retrieved (Abdul Rahman, 2007). This scheme also has the same drawbacks as said above about Mudarabah.

3.1.3. Murahabah

The most offered Sharia based contract is Murahabah. This model is more adequate in purchasing the business equipments (Karim, 2008). In this type of contract, the customer applies for a particular purchase or good and the microfinance program buys the good directly from the market and resells it to the entrepreneur with an additional cost of “mark up” for administrative costs. The mark up is different from interest because it is fixed at the beginning even if the borrower repays after the due date (Karim, 2008). The administration is so easier for the microfinance institution and more realizable for the borrower. Also it provides automatic collateral for the program because the financier will remain the owner until the full settlement (Brandsma, 2000). There are some conditions in this type of contract, the financier must be the owner of the good before the sale, the good must be tangible and in existence at the time of the sell, goods should have the commercial value and they also should be well identified and known. The client should be in accordance with the price of the purchase and reselling (Abdul Rahman, 2007). In this scheme some extra costs can be pushed up because there are varieties of buying and reselling

transactions (Islamic research and training institute, 2008). However, Murahabah can be well applied for microfinance programs (Abdul Rahman, 2007).

3.1.4. Ijarah

Ijarah is a long term contract, usually used for a lease subject based on some condition specified by Sharia. In this model, the microfinance program in addition of having the ownership of the subject has the responsibility of monitoring the asset and repairing it in the case of need. Before Ijarah contract, the financier should purchase and poses the asset and then can offer it for leasing to the customer. The ownership should be specified in the contract. In this method, because of having a simple repayment schedule the cost of the loan administration and monitoring is low. It is a popular method among microfinance institutions (Islamic research and training institute, 2008). However, in the condition of the inability of the lessee to settle on the due time, the programs face risk (Abdul Rahman, 2007).

Despite of the drawbacks of the programs said above, the models more preferred by microfinance institution are Murabaha and Mudarabah. Selecting an appropriate model based on the Islamic principles makes the microfinance programs to face some trades off. The program should consider the administration and monitoring cost and also the risk of the methodology not only for the program but also for the borrower. Normally, the choice is based on the characteristics of the client (Islamic research and training, 2008).

3.2. Case studies

In this section, we study microfinance programs in some countries of the region. MENA region includes 20 countries. Some countries like Sudan and Somalia is not included in this section because they either didn't have any microfinance program or the programs are so small. Other countries which are located in Gulf stated would be difficult to compare because of their higher per capita income which makes the comparison difficult with low and middle income countries of the region. The methodology mostly used in this region is solidarity group lending. According to UNCDF, 70 percent of borrowers are members of the group to assure the repayment of the other member's repayment. Financing in this region is most in the form of credit and there is no diversification in programs. Normally these credits are for enterprise purposes. Although there are some examples of banks involvements in some countries, the microfinance institution mostly are non profit NGO's which are dependant to funds for their existence and growth. Islamic microfinance is the dominant financing method in Yemen and Iran. Special attention to women in order to increase their life quality and their social participation is another important characteristic of micro finance programs in this region.

3.2.1. Egypt:

Based on World Bank ranking, Egypt is classified as "lower-middle-income" country. The microfinance in the region initiated in Egypt and this country traditionally has been the leader of the countries of the region using the microfinance programs. It is one of the countries with a large share of active clients (Brandsma, 2000). Microfinance sector in Egypt enjoys a sustainable and effective expansion and it is fulfilling its goal in poverty reduction and economic development (microfinance gateway). The latest survey of UNCDF shows an increasing growth of the sector after the year 2001. The number of active clients from 87,240 in the year 2001 reached to 256,159 in the year 2003 mostly being served by 7 fully sustainable microfinance institutions. According to UNCDF, the remarkable key factors for this increasing growth are: diversification

of loan products through group lending especially for women, at the beginning microfinance was encountered by lack of diversification of programs until USAID began to emphasize the poverty lending projects. The results show that the new lending products have had an outstanding impact on the expansion. Also programs running in Egypt have a special attention to women empowerment. The other contributor in Egypt growth is sponsorship of the banks especially Banque du Caire. It has been done by downscaling of the microfinance programs in banks. This program in 2003, was serving about 47,000 borrowers.

Despite of the growing number of microfinance programs, the sector is still undeveloped in Egypt with large number of potential unmet clients. According to UNCDF microfinance industry in Egypt could have between 2 and 3 millions of potential clients while it just covers 250.000 of demands in 2004. Governments of Egypt have put a high priority on fostering the microfinance industry in the country as a part of its social and economic growth programs (Brandsma, 2004).

3.2.2. Iran

National Micro-Credit Committee formed in Iran in 2005, in support of providing facilities to make financial services more available for poor and low income households. This was in line of achieving the UN's Millennium Development Goals (MDGs). According to UNDP Iran, the program in Iran began in 2002, in two small villages by dedicating small loans to very poor for self employment projects. As results were desirable, the governments agreed to generate it in other provinces. In Iran 10 percent of people live in extreme poverty and this number increases up to 15 percent in rural areas (UNDP.org).

In Iran there are several NGOs, which their service is similar to microfinance with the name of Qard-Hassan funds (as Qarzul-Hassaneh known in Iran). In 2002, they reached to the highest point of their growth, but because of not having an adequate financial resource management and monitoring system most of them failed in a short time (Mohammad Saleh Torkestani, 2008). Now, there are a few of them which are active formally. They work under the authorization of governments and are changing to banks gradually (Torkestani, 2008). Commercial banks in Iran also provide non interest loans for poor and low income families. These loans normally are offered to cover personal expenses such as “wedding expenses, repayment of outstanding debts, home rental and repaid costs, medical expenses, tuition fees, and the purchase of consumer goods” (Karim, 2008). The result is notable, based on central bank of Iran, about 3 million families benefit of about 6000 Qard-Hassan institutions. However, these types of loans which are large in amount and one-time expenditures are typically different of the loans of microfinance institutions (Karim, 2008). Beside Qard-Hassan funds, microfinance in Iran is informal, through charity organizations. Unfortunately no more data about the activities and running microfinance programs in the country could be found.

3.2.3. Morocco

Morocco is another country in the region with the highest number of active borrowers. At the end of year 2003, Morocco had 42 percent of total active clients and about 13 Microfinance Institutions were registered in the country. According to UNCDF survey of 2003, the number of active borrower in this country grew from 151,164 in the year 2001 to 297,148 in the year 2003. The reason of this outstanding growth in this country was two microfinance institutes founded by USAID: Al Amana and Zakoura. Adding the third responsible, Fondation Banque Populaire, these institutions serve about 90 percent of total active clients. The massive growth on Morocco

means that programs have access to substantial source of funds, donor funds, commercial and governmental funds.

Microfinance programs in Morocco also have prioritized women; they serve about 73 percent of the market and in this case are unique in the region. Also group lending is the dominant methodology for the running programs. In this type of lending the cost of transaction for the institutes reduces and the repayment rate increases.

Moroccan law on microfinance provided an access for microfinance institutions to commercial banks finance. Microfinance institutions were supervised by the ministry of finance, so the confidence of commercial banks to lend to microfinance institutions increased. Thus, this enabled institutes to gain more funds to finance their activities and this helped the industry to grow (Brandsma, 2004). Despite of the increasing growth of the sector, Morocco still has much to go to reach the ideal expansion. One of the challenges for the future is increasing the diversification of the products according to the demands of the clients. Morocco needs to develop new products to foster the industry. Microfinance institutions also need to have more efficient information systems, financial management and human resources.

3.2.4. Yemen

Yemen is one of the poorest countries in the region and the microfinance sector in Yemen is among the youngest. Yemen is so far from reaching the potential demand because there are a few microfinance programs in the country; also there is no specific microfinance policy by government's side. At year 2003, Yemen had 10,000 active clients and women were forming about 83 percent of them.

Yemen is the only country in the region with voluntary saving in large scale (Brandsma, 2004). Before the year 2000, the Social Fund for Development (SFD) was the main support for microfinance programs by its technical assistance and loans.

In 2000, UNCDF Microstart program was presented by UNDP and through this great achievement obtained. In 2003, for the second Phase of *Microstart* Program, SFD and UNDP joined together. They founded an emerging microfinance industry by running different applications and increasing the awareness of policy makers about interest rate, sustainability.

NGOs are not so active in this sector and this seems to be for lack of adequate information about the efficiency of the microfinance in well being of the target clients.

Microstart also was successful in targeting women. Women in Yemen are poorer than men and need lower loans. They are not so active in social activities and their economic activities needs the agreement of their husbands or other male members of the household. Although there is a cultural diversity in the country and there are women whom own their business. The running program to obtain the most desirable result in women cooperation, should consider the need of their clients. However, this sector in Yemen was successful in targeting the women. The experience in the region shows that the programs which mark both men and women are not successful in assimilation of women, because women get marginalized in these programs. Another key factor in attracting women in this country was saving accounts because some women just wanted to save their money to put the money away of their husbands (Brandsma, 2004).

The notable characteristic of microfinance in Yemen is diversification of programs. Islamic microfinance is used in this country, despite of its higher cost of transaction for microfinance institutions but it is a practicable method and people because of their religious beliefs are more tended to these types of contracts.

According to UNCDF, all the programs in Yemen are at their primitive phases and institutions are so far of being sustainable. For improvement they need a professional management, appropriate governance to ensure sustainability and growth.

4. Conclusion

To summarize, the literature has talked about the efficiency of microfinance in improving welfare of poor and low-income population. This small amount of loans provided by microfinance institutions or commercial banks do not need any form of collateral or any official document.

The objective of the paper was reviewing Microfinance industry in MENA region which has some characteristics that divers it of other regions. Integration of Islamic finance concepts to microfinance was one of the efficacious reasons in attracting poor to get advantage of these services. Although there are some challenges about the efficiency of these methods in microfinance, because they are complex and not transparent in profit distribution which makes the borrower confused and also the cost of transactions and administrations is high. But many Muslim borrowers are attracted to these methods for their religious beliefs. For instance, as Judith Brandsma claims, when in Yemen, for the first time the plan of microfinance programs was designed many customers declined the interest rate, saying it is forbidden according to Islamic code (there were a considerable difference between north and south of Yemen. People in South were less strict about this rate).

Generally, this sector in Middle East and North Africa is not well developed and still is far from reaching its potential demand. Based on the conducted surveys, what is more notable about this industry in MENA region is that this sector most of the countries are facing the lack of an appropriate financial management system, monitoring and information systems, deficiency in product diversification and innovation in microfinance programs based on demands of the clients. Having in consideration that gender discrimination is more significant in this region, microfinance also can be an efficient tool in empowering of these women and by getting involved in social activities.

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